

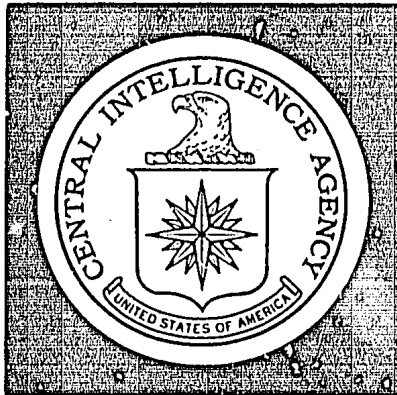
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Entry Into The West African Monetary Union:
Problems And Prospects For Mali*

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August 1971

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CENTRAL INTELLIGENCE AGENCY

Directorate of Intelligence

August 1971

INTELLIGENCE MEMORANDUM

ENTRY INTO THE WEST AFRICAN MONETARY UNION: PROBLEMS AND PROSPECTS FOR MALI

Introduction

1. Mali, one of the world's least developed nations, has been markedly unsuccessful in trying to make economic headway. After independence in 1960, the country left the franc zone and then obtained extensive aid from Communist countries. More recently, Mali has reversed its course and is moving toward membership in the French-sponsored West African Monetary Union. Although its membership in the union is already partly completed, further progress is hindered by legacies from the ill-fated socialist development efforts of former President Keita. The economy is burdened by a large inefficient public sector, by a tremendous external debt, and by persistent balance-of-payments deficits. This memorandum reviews Mali's present status in the franc zone, assesses the potential economic impact of membership in the monetary union, and explores the likelihood of this membership by the end of 1972.

Discussion

Background

2. Historically, Mali ^{1/} has had to cope with an environment highly inimical to economic development. It is the world's fourth largest landlocked country, three times the size of California, but its population is only about 5 million. About 60% of the area is desert and semi-arid steppe and is unsuitable for agriculture. Nevertheless, four-fifths of the population depends on agriculture, and the country's limited export earnings come mainly from livestock (many of which are smuggled abroad), fish, peanuts,

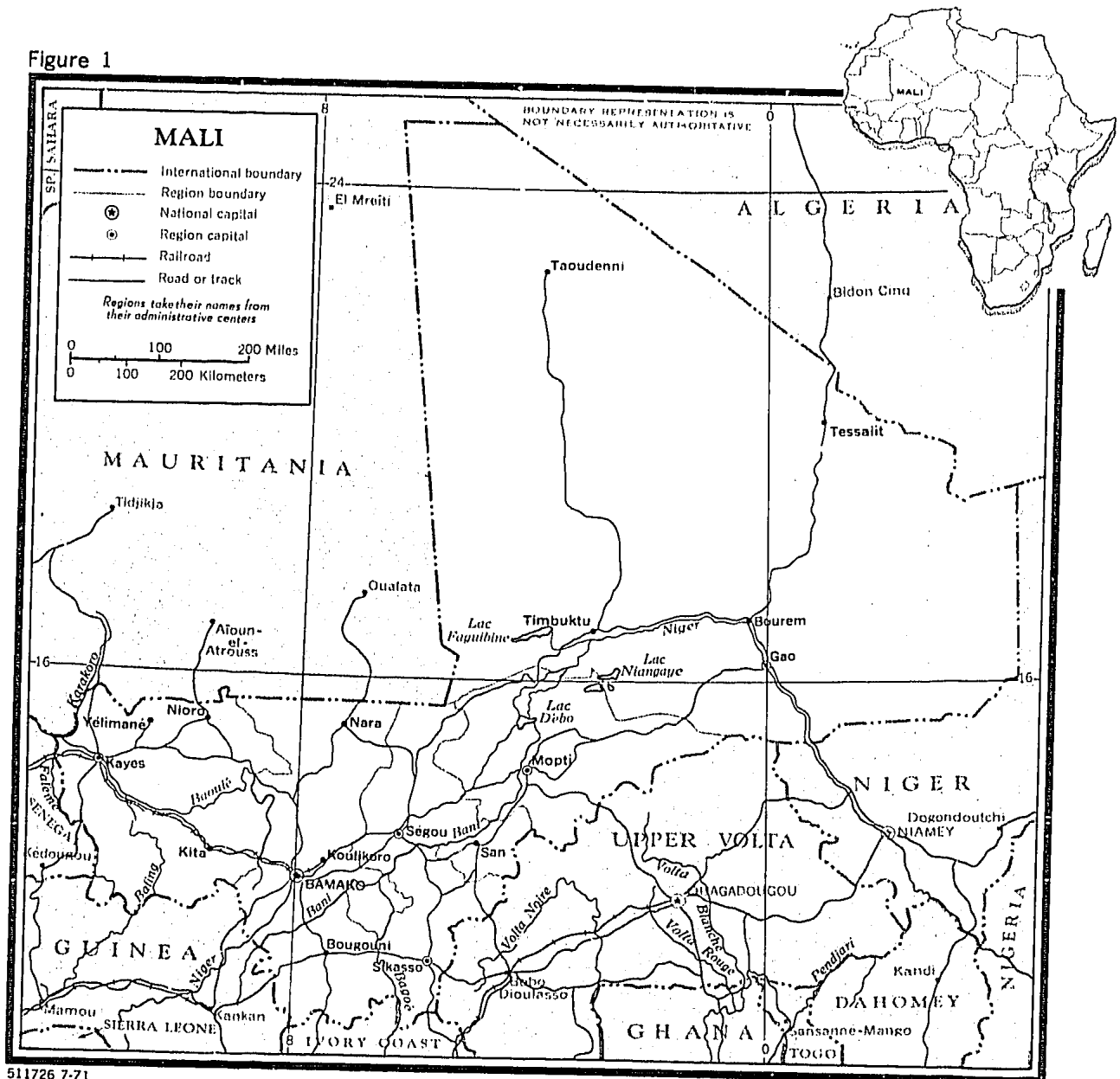
1. For location and principal place names, see the map, Figure 1.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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Figure 1



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and cotton. Mali must rely on lengthy and costly transport routes through neighboring countries for its foreign trade. Industry is quite small and consists largely of facilities for processing agricultural products and manufacturing textiles, cigarettes, matches, wood and metal fixtures, and soap. Mali's mineral resources have not been of sufficient potential value

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to justify the high transport and energy costs necessary for commercial development. As a result, Mali is among the poorest countries of the world, with a per capita gross national product of probably no more than \$50.

3. After independence in 1960, Mali changed its economic and political orientation. 2/ Feeling too dependent on France, which accounted for 80% of the country's imports and dominated external economic relations, Mali sought a fully independent role in directing its economic future. The country's first president, Modibo Keita, opted for a socialist society and embraced central planning as the vehicle for rapid economic development. Many economic activities -- including foreign trade, transport, mining, construction, and banking -- were organized into state enterprises under the Five-Year Economic Development Plan for 1961-65.

4. In 1962, to assert its independence further, Mali left the French-controlled monetary system it had shared with the other countries of former French West Africa and Togo since independence. 3/ Under this system the seven countries had used a common currency, the CFA franc, issued by a common central bank, the Central Bank of the West African States (BCEAO). In mid-1962, France and these former colonies, plus Mauritania, restructured this monetary system, creating the West African Monetary Union (UMOA) and a new BCEAO. 4/ Although Mali participated in the negotiations and actually signed the treaty establishing the UMOA, it refused to enter the new monetary union by declining to ratify the treaty. 5/ Free from French-controlled monetary institutions, Mali then created its own national currency, the Mali franc, and an independent central bank -- the Bank of the Republic of Mali (BRM).

5. With freedom from French monetary control, Mali attracted Communist financial assistance while continuing to receive French and other Western aid. Encouraged by Mali's new political direction, Communist countries -- principally China and the USSR -- provided most of Mali's foreign aid. During 1961-67 these countries extended about \$200 million, placing Mali second only to Ghana in Communist commitments to Black African states for this period. At the same time, France supplied about \$40 million and other sources offered an additional \$40 million, of which \$3 million came from the United States.

2. Mali formerly was the colonial state of Soudan in the old French West Africa Federation. Other colonies in the Federation were the Ivory Coast, Upper Volta, Niger, Guinea, Senegal, and Dahomey.

3. Except Guinea, which created its own currency in mid-1960.

4. For a description of the West African Monetary Union, see the Appendix.

5. Dahomey, Ivory Coast, Mauritania, Niger, Senegal, and Upper Volta ratified the treaty in 1962; Togo joined the Union in late 1963.

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6. Despite this large aid inflow, Mali's development plan failed, and excessive spending by state enterprises established under the plan brought intense monetary and fiscal problems. Mali fell far short of the planned 8% annual growth of gross domestic product -- real growth was only 2% per year during 1962-66 and per capita real income actually declined as population grew 2.6% annually. Some aid was dissipated in unproductive prestige projects, and many industrial projects were left operating below capacity by shortages of raw materials, a lack of technical and managerial skills, and inadequate markets. Furthermore, the expanding administrative costs of rapidly growing government agencies outstripped government revenue, resulting in a threefold expansion of bank credit to the public sector, and, because of foreign expenditures, reserves fell from \$10 million in 1962 to less than \$1 million in 1966. In the wake of this large credit expansion, the Mali franc was undercut severely by inflation, making it essentially worthless outside Mali. Between 1962 and 1966, prices for basic foodstuffs on the uncontrolled market in Bamako rose 90%, and Mali's money supply increased more than 70%, far exceeding the 10% increase in real growth.

7. In view of these deteriorating economic conditions, Mali turned back to France in late 1966 for monetary and financial assistance. Both parties signed an agreement in early 1967 establishing a three-stage plan for Mali's economic recovery and eventual admission to the West African Monetary Union. In the first stage, Mali undertook a program to readjust its economic and financial structures in preparation for the strict monetary discipline of the monetary union. To this end, Mali devalued its franc by 50% and introduced measures to tighten domestic credit. In early 1968, the preparatory period ended and a period of bilateral cooperation began with the establishment of a new central bank -- the Central Bank of Mali (BCM) -- under joint Franco-Malian management. France also guaranteed full convertibility of the Mali franc into French francs, thus signaling Mali's return to the franc zone. 6/ The third and final stage, in which Mali enters the monetary union, has been set tentatively for the end of 1972, contingent on Mali's raising its state enterprises to an economically sound condition, achieving a balance-of-payments equilibrium, and eliminating budgetary deficits.

6. *The franc zone, comprising French territories, departments and independent (formerly French) states, consists of three distinct areas: (a) the French Republic with its 95 mainland departments, four overseas departments, and six overseas territories; (b) the Afro-Malagasy states, which include the seven member states of the UMOA, the five Equatorial African countries, the Malagasy Republic, and Mali; and (c) Morocco, Algeria, and Tunisia.*

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CONFIDENTIALCurrent Economic Setting

8. The Malian economy in 1971 is still far from meeting the third stage criteria. A chronic budget imbalance persists – largely caused by the politically sensitive problem of unprofitable state enterprises. The sizable foreign aid flows of the early 1960s have left a heavy burden of external debt. These debt repayments plus chronic trade imbalances continue to produce recurrent balance-of-payments deficits.

9. Despite attempts to improve their management and productivity, state enterprises, which account for an estimated 75% of the value added in the modern sector, are plagued by financial difficulties. Suffering from excess capacity, a lack of skilled management, and burdensome social obligations, ^{7/} the state enterprises have been a major source of public sector deficits. The budgetary stress caused by these companies intensified in 1969 and 1970 when they ran a combined two-year deficit of more than \$6 million, equal to 12% of total government revenues of \$54 million for those two years (see Table 1). In early 1971, to help eliminate this large deficit, the MCNL ^{8/} took the politically difficult step of raising prices on several key consumer goods provided by SOMIEX, the large state trading company that accounted for more than 80% of the losses in 1969 and 1970.

10. Mali's outstanding external debt at the end of 1969 was \$237 million – as large as gross national product for that year (see Table 2). Despite budgetary subsidies specifically channeled to repay French creditors, Mali was \$7 million in arrears through 1969. The financing burden, even after debt rescheduling in 1970 with some of Mali's principle creditors, is projected to average almost \$12 million annually during 1971-73 – more than 35% of expected budgetary receipts and about 40% of anticipated export earnings. Since Mali's resources are too limited to support these debt payments, the government must obtain long-term debt relief, principally from China.

11. The estimated 1970 balance-of-payments deficit was nearly \$6 million. Although considerably less than the 1968-69 average level of about \$17 million, it was still large, representing about 20% of total exports for

7. For example, SOMIEX, the state trading company, is required to serve all districts of Mali and to sell identical goods at the same price in all regions, even though transport and stockkeeping costs are substantially higher in the remote areas.

8. The Military Committee of National Liberation, the ruling 11-man military junta, deposed President Keita in a bloodless coup in November 1968.

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that year (see Table 3). The failure of Mali's planned industrial development for export promotion in the early 1960s is a major cause of these deficits; current exports, although rising, continue to lag behind the high import level brought on by the development plan. Deficits on the trade balance -- which averaged \$19 million annually in the period 1965-69 -- diminished in 1970 as import growth was checked and recorded exports rose -- largely as a result of reduced smuggling. ^{9/}

Current Benefits from the Franc Zone

12. Since 1967, bilateral cooperation with France has provided Mali with the major benefits enjoyed by the seven member states of the West African Monetary Union. In part, this privilege is designed to help Mali meet the economic reforms demanded by France, and in part it reflects France's desire to return Mali to its sphere of influence. Primarily, these advantages consist of monetary support and economic aid.

13. The monetary support Mali draws as part of the franc zone is similar to that accorded to the UMOA member states. ^{10/} The BCM performs the same basic functions carried out by the BCEAO in the Union, although French control over BCM's management is somewhat greater. ^{11/} As with the CFA franc, the Mali franc is fully guaranteed by the French Treasury. To support Mali's currency, the Treasury assures its free convertibility into French francs at a fixed parity and allows overdrafts in the operations account. On overdrawn balances, the statutes are more liberal to Mali than to UMOA states, extending credit to the BCM at about 1.5% for negative balances as large as \$27 million, less than one-fourth the rate that would be charged the BCEAO for a similar balance. ^{12/} Since 1968, Mali has made heavy use of this source of funding to support its currency, accumulating a substantial \$45 million negative balance on the operations account through mid-1970.

9. Recorded livestock exports rose sharply in 1969 and 1970 after the cattle export tax was reduced from \$9 to \$2.70 per head in 1969.

10. See the Appendix for an explanation of the monetary arrangements in the UMOA.

11. In the BCEAO the member African states hold 2/3 of the seats on the Board of Directors, which is responsible for the overall management of the Bank. Mali has equal representation with France on the BCM's Board of Directors, which is headed by a manager appointed by France.

12. The Treasury charges the BCEAO the discount rate of the Bank of France (currently 6.75%) for negative balances greater than \$1.8 million. The BCM is charged higher interest on successive tranches of credit: 1% on negative balances up to \$0.9 million; 1.5% on negative balances between \$0.9 million and \$27 million; and the discount rate of the Bank of France on negative balances greater than \$27 million.

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14. Mali has received significantly higher levels of French aid since the 1967 bilateral agreements. While it received considerable aid just prior to the formation of the UMOA, Mali had lagged far behind the UMOA states in receipts of official FAC loans 13/ in the years when it was not a franc zone member. In the three years since Mali's reentry into the franc zone, the average level of FAC extensions to Mali more than doubled (see Figure 2). Although not at the absolute and relative levels of aid prior to 1962, French official aid since 1967 has been comparable with the extensions to the UMOA countries. In terms of French budgetary subsidies, Mali's receipts also have risen considerably. The \$8 million of French grants in 1968 and 1969 was higher than reported grants to any of the UMOA states for those two years. In terms of technical aid, French offers of personnel presently exceed Mali's desire for additional French technicians.

Benefits and Costs of Proposed UMOA Membership

15. Formal entry into the UMOA, now set for late next year, in addition to preserving the present benefits should provide some limited additional economic advantages. Mali probably would obtain substantially increased French development aid and budgetary assistance. In addition, cheaper central bank credit would be available to the government and the banking system: the present cost of credit from the BCM is about twice the cost to member states of the BCEAO. 14/ Furthermore, as a member of the UMOA, Mali would gain access to 50% more funds in short-term direct advances from the central bank to help stabilize seasonal balance-of-payments fluctuations. 15/

16. Full membership in the West African Monetary Union would not be without some intangible cost to Mali. The major item would be the loss of the country's last vestiges of monetary autonomy, the Mali franc, and the Central Bank of Mali. These institutions are highly valued as symbols of Malian independence, despite the considerable support given them by France.

13. As reported to the DAC. The FAC (Aid and Cooperation Fund) is a French agency that provides budgetary subsidies, contributes to investments, and grants low-interest loans, principally to franc zone member states.

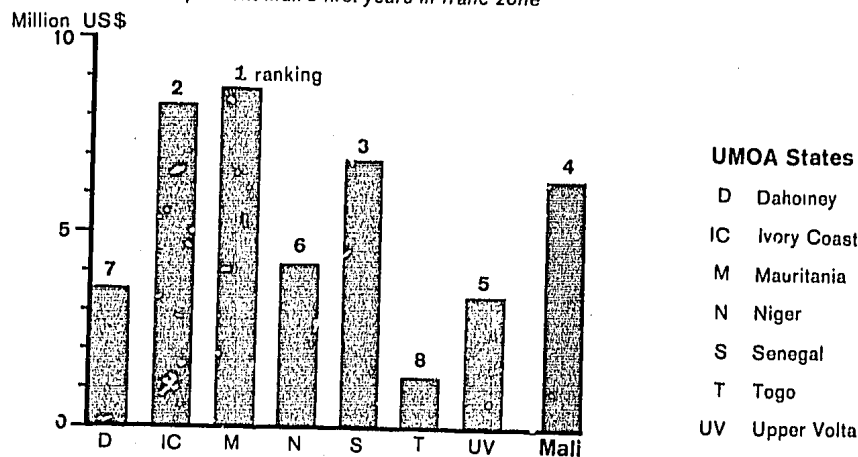
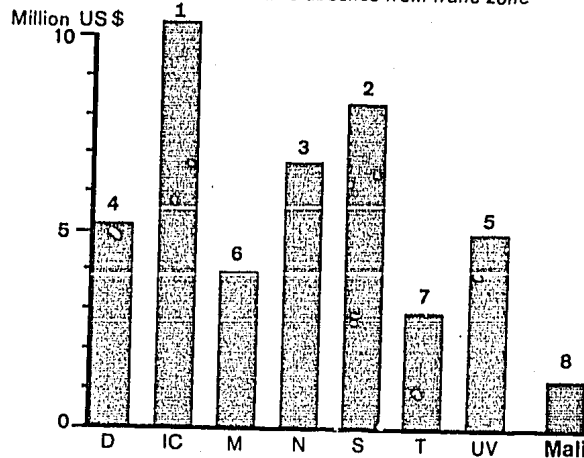
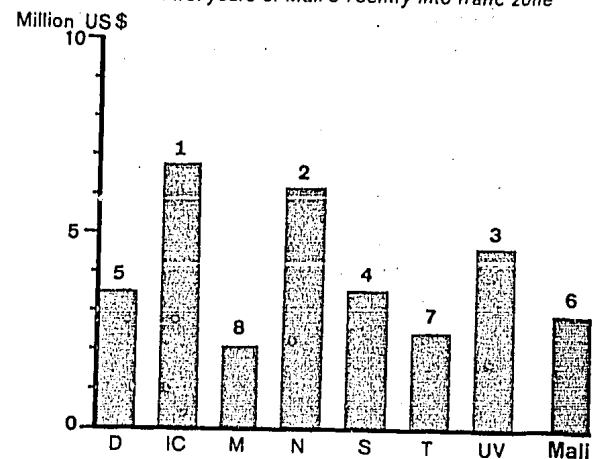
14. This is principally due to the substantial credit balances kept by the BCEAO: the BCEAO has not incurred a debit balance on its operations account since the UMOA was formed. The BCM, on the other hand, has a \$45 million debit balance with the French Treasury, and the cost of these funds is passed on to the BCM's debtors.

15. The BCEAO extends direct advances to governments of member states equal to 15% of the fiscal receipts of the previous budget year, for a maximum of 240 days (or to the end of the year). The BCM's direct advances are limited to 10% of the previous year's fiscal receipts.

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Figure 2

Average Annual FAC Credit Extensions to UMOA States and Mali**1960-1962***Independent Mali's first years in franc zone***1963-1966***Period of Mali's absence from franc zone***1967-1969***First years of Mali's reentry into franc zone*

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Outlook for Mali and the UMOA

17. Although Franco-Malian cooperation and negotiations have brought Mali to the doorstep of the UMOA, Mali's ability to meet France's pre-conditions of restored economic health by the end of 1972 is highly

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unlikely. Mali's payments deficit fell \$9 million between 1969 and 1970, but this reduction was due at least in part to failure to make debt repayments; future debt payments, unless rescheduled, will cause deficits to grow at a greatly accelerated rate. Furthermore the country cannot reasonably expect to balance its budget, even excluding the scheduled debt service payments, until 1974 or later (see Table 4). Although the MCNL raised prices substantially on key consumer goods early in 1971 to help eliminate the state enterprises' large deficit, Mali is still far from budgetary balance - French budgetary subsidies are expected to total at least \$5 million for 1971 and 1972. France, nevertheless, appears pleased with the efforts of the MCNL in tackling its complex problems and continues to encourage closer economic ties.

18. The spectre of large aid flows from Communist China poses an important political uncertainty concerning Mali's admission to the UMOA. Earlier this year, China renewed its presence in Mali by reopening some of the \$24 million of credits left over from previous loans. More recently, Mali made an official request to China to undertake the \$120 million Manantali dam project, 16/ which has a high priority with the MCNL. Although making no firm commitment, the Chinese have sent a team to do a feasibility study on the construction of the project and expect to reach a decision some time in 1973. France, fearing Chinese political inroads into West Africa, has shown a renewed interest in sponsoring a consortium to finance the Manantali project, or an alternative dam, and presently is prepared to provide a substantial increase in developmental assistance to Mali, including aid to agriculture, mineral surveys, road construction, and public works projects. French concern over China's role in the Manantali dam project makes it unlikely that Mali's membership will be allowed before the question of the dam's financing is resolved.

19. In all likelihood, when the 1972 target date for Mali's entry arrives, the admission of Mali to the UMOA on an equal basis with the other UMOA states will not be denied outright. Mali's budgetary and payments deficits, combined with the uncertain direction of Chinese involvement in Mali, probably will result, however, in postponement of Mali's entry. France, unwilling to introduce an economically unstable element into the monetary union, most likely will opt for an extension of bilateral cooperation with Mali and set another target date. This course of action particularly will be likely if the question of Chinese backing of the Manantali dam project is still undecided by the target date.

16. Mali is one of the four states of the Organization of Senegal River States (OERS - Senegal, Mauritania, Guinea, and Mali) that would probably share the cost and benefits of this proposed hydroelectric-irrigation project on the Senegal River. Senegal presently opposes Chinese financing of the dam.

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Table 1

Mali: Net Profits of State Enterprises
1966/67 - 1970 a/

	Million US \$			
	<u>1966/67</u>	<u>1967/68</u>	<u>1969 ^{b/}</u>	<u>1970 ^{c/}</u>
Trade and services	1.5	0.7	-3.8	-2.5
SOMIEX	1.4	0.7	-2.9	-2.3
Others (six companies)	0.1	Negl.	-0.9	-0.2
Industry (11 companies)	0.1	1.0	0.4	0.7
Transport (six companies)	-0.1	-0.6	-1.3	-0.2
Energy and public works (three companies)	0.3	-0.1	0.2	0.2
<i>Total state enterprises</i>	<i>1.8</i>	<i>1.0</i>	<i>-4.5</i>	<i>-1.9</i>

- a. Because of rounding, components may not add to the totals shown.
b. The accounting year changed to the calendar year in 1968.
c. Estimated.

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Table 2

Mali: Outstanding External Public Debt at the End of 1969 *a/*

	Disbursed Principal	Interests Due	Total Indebtedness <i>b/</i>	Outstanding Payment Arrears	1970 <i>c/</i>	Projected Service Payments		
						1971	1972	1973
Convertible zone	68.3	11.3	79.6	4.6	2.5	2.7	2.5	3.2
France	43.1	5.7	48.8	--	1.9	2.1	2.2	2.8
United Kingdom	1.7	0.3	2.0	--	0.4	0.3	0.1	--
International Development Association	4.9	1.6	6.5	--	--	--	--	--
United States	0.6	0.8	1.4	Negl.	--	--	--	--
Ghana	8.5	2.6	11.1	--	0.2	0.2	0.2	0.2
West Germany	9.5	0.3	9.8	4.6	Negl.	Negl.	Negl.	0.2
Clearing zone	154.0	3.0	157.0	2.3	2.8	5.0	9.2	13.0
USSR	72.0	--	72.0	--	--	--	--	--
Communist China	64.1	--	64.1	0.4	0.8	3.0	7.1	19.4
Czechoslovakia	1.3	0.2	1.5	Negl.	0.2	0.2	0.1	0.1
Yugoslavia	0.9	0.1	1.0	0.2	0.2	0.2	0.2	0.1
Bulgaria	0.5	0.1	0.6	0.3	0.1	--	--	--
UAR	14.0	2.6	16.6	1.3	1.5	1.6	1.8	2.1
Algeria	1.2	--	1.2	--	--	--	--	0.3
Total	22.3	14.3	236.6 <i>b/</i>	6.9	5.3	7.7	11.7	16.2

a. Because of rounding, components may not add to the totals shown.*b.* Excludes undispersed funds, which amount to \$6.8 million from the convertible zone countries and \$56.9 million from the clearing zone countries, \$24.2 million of which was extended by China; also excludes \$44 million extended by the French Treasury through the end of 1969.*c.* Estimated.

Table 3

Mali: Balance of Payments

	Million US \$			
	1966/67	1968 ^{a/}	1969 ^{b/}	1970 ^{c/}
Goods and services	-42.1	-37.2	-34.9	-32.1
Exports (f.o.b.)	20.3	17.9	23.3	29.7
Imports (f.o.b.)	37.3	30.5	38.3	38.7
Trade balance	-17.0	-12.6	-15.0	-9.0
Services (net)	-25.1	-24.6	-19.9	-23.1
Unrequited transfers (net)	17.8	13.1	20.9	16.7
Capital (net)	19.8	5.1	-1.0	6.7
IMF SDR allocation	--	--	--	--
Total	-4.5	-19.0	-15.0	-5.8
Reserve movements (net) ^{d/}	5.3	17.4	15.1	5.8
Errors and omissions	-7.8	1.6	-0.1	--

a. The accounting year changed to the calendar year in 1968.

b. Preliminary figures.

c. Estimated.

d. A positive sign indicates a decrease and a negative sign an increase in reserve holdings.

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Table 4

Mali: Central Government Revenues and Expenditures a/

	Million US \$						
	1966/67	1967/68	1969	1970 <u>c/</u>	Projected <u>b/</u>		
					1971	1972	1973
Revenues	19.4	27.9	25.2	28.8	31.0	32.1	33.7
Direct taxes	3.7	4.1	3.6	2.9	3.1	3.2	3.4
Indirect taxes	12.3	19.8	19.6	21.8	23.6	24.3	25.5
Import taxes and duties	5.3	6.9	6.9	6.7	7.0	7.4	7.9
Export duties	0.1	3.8	2.8	1.0	4.7	4.1	4.1
Taxes on production and trans- actions	6.8	8.9	9.7	10.8	11.5	12.3	13.0
Other	0.2	0.2	0.3	0.4	0.4	0.5	0.5
Profits from state enterprises	--	0.6	--	--	--	--	--
Other	3.4	3.4	2.0	4.1	4.3	4.5	4.7
Expenditures	22.0	28.6	32.5	32.0	39.4	44.6	50.3
Debt service	1.0	1.6	5.8	1.4 <u>d/</u>	7.7 <u>e/</u>	11.8 <u>e/</u>	16.3 <u>e/</u>
Internal	1.0	1.6	1.1	1.0	--	--	--
External	--	--	4.7	0.5	7.7	11.8	16.3
Other expenditures	21.0	27.0	26.7	30.6	31.7 <u>f/</u>	32.8 <u>f/</u>	34.0 <u>f/</u>
Government wages and salaries	13.0	15.6	15.5	18.0	--	--	--
Materials and supplies	6.8	7.2	7.2	8.1	--	--	--
Subsidies and contributions to state enterprises	1.2	4.2	3.0	4.5	--	--	--
Current deficit including debt service	2.6	0.7	7.3	3.2	8.4	12.5	16.6
Capital expenditures	--	3.0	1.5	3.0	N.A.	N.A.	N.A.
Central government deficit <u>g/</u>	2.6	3.7	8.8	6.2	--	--	--

a. Because of rounding, components may not add to the totals shown.

b. Based on 6% annual growth in production (excluding 1971 price increases for basic consumer goods).

c. Estimated.

d. The government, assuming substantial relief from foreign creditors, budgeted \$3.8 million below the scheduled debt servicing cost of \$52 million.

e. As scheduled.

f. Based on 3.5% growth of expenditures, according to the 1970-72 development plan.

g. Covered principally by French subsidies and government borrowing from commercial banks.

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The West African Monetary Union (UMOA) provides for the monetary stability of the member African states. The UMOA's currency, the CFA franc, is freely convertible into French francs at fixed parity in the BCEAO's "operations account" of the French Treasury. According to the 1962 agreement establishing the UMOA, the member states are required to pool their foreign exchange reserves with the BCEAO, which then keeps these reserves (except a small balance for daily transactions) in French francs in the operations account in Paris.* This account is credited with the amount of transfers to the BCEAO area and debited for transfers coming from the area. The variation in this account thus becomes a direct reflection of the aggregate balance of payments of the UMOA states with foreign countries. The balance of this account provides the backing for the CFA francs issued by the BCEAO.

Furthermore, member states in balance-of-payments difficulties have access to this common pool of reserves to avoid abrupt changes in monetary and fiscal policies and to forestall the use of exchange restrictions. Direct advances from the BCEAO are limited to 15% of the country's fiscal revenue in the previous years and for a period of 240 days (or to the end of the year). Other credits are available to member governments and the banks at favorable interest rates.** In the event of a shortfall in the states' reserves in the operations account, the BCEAO can draw on the French Treasury through the account.*** In this way the BCEAO effectively has an unlimited line of credit with the French Treasury.

* *The foreign exchange earned by the BCEAO is converted into French francs in the Paris market.*

** *The 3.5% discount rate of the BCEAO applies to all credits to member governments, with the exception of export credits, which receive a preferential 3% rate.*

*** *On overdrawn accounts, higher interest is charged on successive tranches of credit, the upper limit being the discount rate of the Bank of France.*

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